Tarxien Local Council
Financial Statements
for the year ended 31 December 2013

Compiled by: Mazars Consulting Ltd

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Financial Statements for the year ended 31 December 2013

Statement of Local Council Members' and Executive Secretary's Responsibilities

The Local Councils (Financial) Regulations require the Executive Secretary to prepare a detailed annual administrative report which includes a statement of the Local Council's income and expenditure for the year and of the Council's retained funds at the end of year. By virtue of the same regulations it is the duty of the Local Council and the Executive Secretary to ensure that the financial statements forming part of the report present fairly, in accordance with the accounting policies applicable to Local Councils, the income and expenditure of the Local Council for the year and its retained funds as at the year end, and that they comply with the Act, the Local Council (Financial) Regulations, 1993 and the Local Council (Financial) Procedures issued in terms of the said Act.

The Executive Secretary is responsible to maintain a continuous internal control to ascertain that the accounting, recording and other financial operations are properly conducted in accordance with the Local Councils Act, Local Council (Financial) Regulations 1993, and the Local Councils (Financial) Procedures 1996. The Executive Secretary is also responsible for safeguarding the assets of the Council and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Joseph Abela	Paul Pace
Mayor	Executive Secretary

Date:

Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2013

	Notes	**2013 EUR**	2012 EUR
Income			
Funds from central government	5	**521,603**	493,582
Income raised under LES	6	**6,039**	10,798
General income	8	**17,516**	26,561
		545,158	530,941
Expenditure			
Personal emoluments	9	**(120,274)**	(110,318)
Operations and maintenance	10	**(220,133)**	(253,864)
Administration & other expenditure	11	**(211,385)**	(154,214)
Impairment loss on assets written off	12c	**-**	(1,560)
		(551,792)	(519,956)
Operating (loss)/profit for the year		**(6,634)**	10,985
Investment Income	7	**232**	649
(Loss) / profit for the year		**(6,402)**	11,634

Statement of financial position as at 31 December 2013

	Notes	2013 EUR	2012 EUR
ASSETS			
Non-current assets			
Intangible assets	13	**668**	890
Plant and equipment	12	**1,384,697**	1,021,871
		1,385,365	1,022,761
Current assets			
Inventory	14	**2,806**	2,868
Trade and other receivables	15	**66,926**	156,691
Cash in hand and at bank	16	**72,000**	31,284
		141,732	190,843
Total assets		**1,527,097**	1,213,604
EQUITY AND LIABILITIES			
Reserves			
Retained earnings		**710,622**	717,024
Non-current liabilities			
Long Term Borrowings	20	**103,654**	72,741
Deferred Income	19	**466,751**	276,921
		570,405	349,662
Current liabilities			
Bank Current account	17	**23,335**	8,958
Trade and other payables	18	**173,432**	120,768
Deferred Income	19	**49,303**	17,192
		246,070	146,918
Total reserves and liabilities		**1,527,097**	1,213,604

These financial statements were approved by the Local Council on ____________ 2014, and signed on its behalf by:

Mr. Joseph Abela
Mayor

Mr. Paul J Pace
Executive Secretary

Statement of Changes in Equity for the year ended 31 December 2013

	Retained Funds
	EUR
Balance at 31 December 2011	**705,390**
Profit for the year	**11,634**
Balance at 31 December 2012	**717,024**
Loss for the year	**(6,402)**
Balance at 31 December 2013	**710,622**

Statement of Cash flows for the year ended 31 December 2013

	Notes	2013 EUR	2012 EUR
Cash flows from operating activities			
(Loss) / Profit for the year		**(6,402)**	11,634
Adjusted for:			
Depreciation		**115,918**	55,716
Amortization of intangibles		**222**	271
Impairment loss on assets write off		**-**	1,560
Grant Income released during the year		**(28,314)**	(8,709)
Interest receivable		**(232)**	(649)
		81,192	59,823
Movement in working capital:			
Inventories		**62**	(485)
Receivables		**89,765**	(104,240)
Payables		**83,580**	87,353
Net cash generated from operating activities		**254,599**	42,451
Cash flows from investing activities			
Purchase of tangible fixed assets		**(478,745)**	(468,935)
Purchase of intangible assets			(1,372)
Proceeds from disposal of assets			79
Grants proceeds for capital expenditure		**250,254**	215,226
Interest received		**232**	649
Net cash used in investing Activities		**(228,259)**	(254,353)
Net movement in cash and cash equivalents		**26,340**	(211,902)
Cash and cash equivalents at the beginning of the year		**22,325**	234,227
Cash and cash equivalents at the end of the year	16,17	**48,665**	22,325

<u>Notes to the Financial Statements for the year ended 31 December 2013</u>

1. General Information

Tarxien Local Council is the local authority of Tarxien setup in accordance with the Local Councils Act. The office of the Local Council is situated at 73, Saint Mary Street, Tarxien. These financial statements were approved for issue by the Council Members on 29th April 2014.The Local Council is in charge to maintain cleanliness in the locality, the maintenance and up-keep of public property and enjoys further responsibilities to provide a wide spectrum of services to residents, commercial entities and visitors alike. The Council's role also necessitates that development and up-keep is undertaken in a way that it preserves the natural environment and supports sustainable development. The Council's presentation as well as functional currency is denominated in Euro.

2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

These consolidated financial statements are drawn up in accordance with the accounting policies and reporting procedures prescribed for Local Councils in the Financial Regulations issued by the Minister of Finance in conjunction with the Minister responsible for Local Government in terms of Section 67 of the Local Councils Act (Cap 363). The consolidated financial statements are prepared under the historical cost convention as modified to include fair values stated in the accounting policies below.

These financial statements are prepared in accordance with the requirements of International Financial Reporting Standards as adopted by the EU and comply with the Local Councils Act Cap 363, the Financial Regulations issued in terms of this Act and the Local Councils (Financial) Procedures 1996.

Notes to the Financial Statements for the year ended 31 December 2013

Application of new and revised International Financial Reporting Standards (IFRSs)

New and revised IFRSs affecting amounts reported and/or disclosures in the financial statements

In the current year, the Local Council has applied a number of new and revised IFRSs issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The Local Council has applied the amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement. The amendments have been applied retrospectively. As the Local Council does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Local Council has applied the amendments to IAS 1 Presentation of Items of Other Comprehensive Income for the first time last year. The amendments introduce new terminology, whose use is not mandatory, for the Statement of Comprehensive Income and Income Statement. Under the amendments to IAS 1, the ‘Statement of Comprehensive Income’ is renamed as the ‘Statement of Profit or Loss and Other Comprehensive Income’. The amendments to IAS 1 retain the option to present the Statement of Profit or Loss and Other Comprehensive Income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

2.1 Basis of preparation cont…

2. Summary of significant accounting policies cont….

Amendments to IAS 1 Presentation of Financial Statements
(as part of the Annual Improvements to IFRSs 2009 – 2011 Cycle issued in May 2012)

The Annual Improvements to IFRSs 2009 – 2011 have made a number of amendments to IFRSs. The amendments that are relevant to the Local Council are the amendments to IAS 1 regarding when a Statement of Financial Position as at the beginning of the preceding period (third Statement of Financial Position) and the related notes are required to be presented. The amendments specify that a third Statement of Financial Position is required when a) an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items in its financial statements, and b) the retrospective application, restatement or reclassification has a material effect on the information in the third Statement of Financial Position. The amendments specify that related notes are not required to accompany the third Statement of Financial Position.

In the current year, the Local Council has applied a number of new and revised IFRSs which has resulted in no material effects on the information in the Statement of Financial Position as at 1 January 2013.

New and revised IFRSs in issue but not yet effective

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, IAS 27 (as revised in 2011) Separate Financial Statements and IAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards. According to the EU endorsement status report issued by the European Financial Reporting Advisory Group (EFRAG), the latest date of application for application of these revised standards is on or after 01st January 2014.

The Local Council is assessing the impact of the application of these new standards, with particular reference to the joint venture the Council holds in the 5 a side football ground.

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

2.1 Basis of preparation cont…

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards.

For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope. IFRS 13 is effective for annual periods beginning on or after 1 January 2013.

The Local Council has not applied the following new and revised IFRSs that have been issued but are not yet effective:

IFRS 9	Financial Instruments (see note a below)
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures (see note b below)
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities (see note a below)
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities (see note a below)
Amendments to IAS 39:	Novation of Derivatives and Continuation of Hedge Accounting
Amendments to IAS 36:	Recoverable Amount Disclosures for Non-Financial Assets

a) Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
b) Effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

2.1 Basis of preparation cont…

IFRS 9 Financial Instruments

IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9:

All recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods.

In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

The Local Council anticipates that the application of IFRS 9 in the future may have a significant impact on amounts reported in respect of the Local Council's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

Amendments to IFRS 10, IFRS 12 and IAS 27 Investment Entities

The amendments to IFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, a reporting entity is required to:

- Obtain funds from one or more investors for the purpose of providing them with professional investment management services.

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

2.1 Basis of preparation cont…

- Commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both.
- Measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to IFRS 12 and IAS 27 to introduce new disclosure requirements for investment entities.

The Local Council does not anticipate that the investment entities amendments will have any effect on the Local Council's financial statements as the entity is not an investment entity.

Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities

The amendments to IAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The Local Council does not anticipate that the application of these amendments to IAS 32 will have a significant impact on the Local Council's financial statements as the entity does not have any financial assets and financial liabilities that qualify for offset.

Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to IAS 36 to amend the disclosure requirements in IAS 36 Impairment of Assets with regard to the measurement of the recoverable amount of impaired assets that were made as a consequence of issuing IFRS 13 Fair Value Measurement in May 2011.
The Council does not anticipate that the application of these amendments to IAS 36 will have a significant impact on the entity's financial statements.

Amendments to IAS 39: Novation of Derivatives and Continuation of Hedge Accounting

The amendments to IAS 39 provide an exception to the requirement for the discontinuation of hedge accounting in IAS 39 and IFRS 9 in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations.

The Local Council does not anticipate that the application of these amendments to IAS 36 will have a significant impact on the Local Council's financial statements.

With regard to the measurement of financial liabilities designated as at fair value through Profit or Loss, IFRS 9 requires that the amount of change in the fair value of the financial liability, that is attributable to changes in the credit risk of that liability, is presented in Other Comprehensive Income, unless the recognition of the effects of changes in the liability's credit risk in Other Comprehensive Income would create or enlarge an accounting mismatch in Profit or Loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to Profit or Loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through Profit or Loss was presented in Profit or Loss. The Council anticipate that the application of IFRS 9 in

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

2.1 Basis of preparation cont…

the future may have a significant impact on amounts reported in respect of the Council's financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 until a detailed review has been completed.

2.2 Significant accounting policies

The principal accounting policies and reporting procedures used by the Council are as follows:

a. Revenue recognition

Revenue is recognised when there are no significant uncertainties concerning the derivation of consideration or associated costs. Interest income is recognised in the Statement of Profit or Loss and Other Comprehensive Income as it accrues.

b. Local Enforcement System

The Tarxien Local Council forms part of the Regjun Xlokk. On 01 September 2011, all LES funds were diverted to five regions. With effect from 01 September 2011, the only income attributable to the Council is commission income based on the value of contraventions paid at Tarxien Local Council.

Prior to 01 September 2011, the Tarxien Local Council formed part of the Southern Joint Committee. The amount disclosed in the financial statements under Local Enforcement Income represents the share of profit derived from the Joint Committee after deducting the related expenses. The share of profit derived from the Joint Committee is accounted for on a cash basis.

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

2.1 Basis of preparation cont…

c. Property, Plant and Equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment loss to date. Depreciation is calculated on a monthly basis using the reducing balance method at rates calculated to write off the cost less residual value of each asset over its expected useful life as follows:

	%
Trees	0
Buildings	1
Office Furniture and Fittings	7.5
Construction Works	10
Urban Improvements (Street Furniture)	10
Special Projects	10
Office Equipment	20
Motor Vehicles	20
Plant and Machinery	20
Computer Equipment	25
Plants	100
Litter Bins	replacement basis
Playground furniture	100
Traffic Signs	replacement basis
Road Signs	replacement basis
Street Mirrors	replacement basis
Street Lights	100

Gains and losses on disposal of property, plant and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. The residual values and useful lives of the assets are reviewed and adjusted as appropriate, at each statement of financial position date. The carrying amount of an asset is written down immediately to its recoverable amount if the carrying amount of the asset is greater than its estimated recoverable amount.

Subsequent costs are included in the carrying amount of the asset or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Council and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the Statement of Profit or Loss and Other Comprehensive Income during the financial year in which they are incurred.

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

2.2 Significant accounting policies cont…

d. Government Grants

Government grants are accounted for on a systematic basis in the Statement of Profit or Loss and Other Comprehensive Income over the periods necessary to match them with the related costs which they are intended to compensate. If such costs have already been incurred when the grant is made, or if there are no related costs, then the grant is accounted for when it becomes available.

Government grants related to assets are presented in the Statement of Financial Position as Deferred Income, which is recognised as income on a systematic basis over the useful life of the asset.

In order to comply with the guidance received from the Department of Local Councils (ref Memo 150/2010) dated 23rd December 2010, the Council adopted the Income Approach as the method of presentation adopted in the financial statements with effect from 1 January 2010, as opposed to the Capital Approach adopted in prior years.

e. Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value of the asset less cost to sell and the value in use. Impairment losses are immediately recognised as an expense in the Statement of Profit or Loss and Other Comprehensive Income.

The impairment loss on investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured is measured as the difference between the carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset.

f. Amounts Receivable

Amounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest rate method, less provision for impairment. A provision for impairment of amounts receivable is established when there is objective evidence that the Council will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is the difference between the carrying amount of the asset in the present value of the estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the Statement of Profit or Loss and Other Comprehensive Income.

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)
2.2 Significant accounting policies cont…

g. Foreign Currencies

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the Council operates. These Financial Statements are presented in Euro (EUR), which is the Council's functional and presentation currency.

Transactions denominated in foreign currencies are translated into Euro at rates of exchange in operation on the dates of transactions. Monetary assets and liabilities expressed in foreign currencies are translated into Euro at the rates of exchange prevailing at the date of the Statement of Financial Position.

h. Profit and Losses

Only profits that were realised at the date of the Statement of Financial Position are recognised in these Financial Statements. All foreseeable liabilities and potential losses arising up to the said date are accounted for even if they become apparent between the said date and the date on which the Financial Statements are approved.

i. Cash and Cash Equivalents

Cash and Cash Equivalents are carried in the Statement of Financial Position at face value. For the purposes of the Cash Flow Statement, cash and cash equivalents comprise cash in hand and balances held with banks.

j. Trade and other payables

Trade and other payables are classified with current liabilities and are stated at their nominal value unless the effect of discounting is material in which case trade and other payables are measured at amortised cost using the effective interest method.

k. Intangible fixed assets

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a reducing balance basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounting for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Computer Software

Computer software is valued at cost less accumulated amortisation and impairment losses to date. Amortization to write off the cost is calculated on a monthly basis using the reducing balance method at 25% per annum.

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

2.2 Significant accounting policies cont…

l. Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the Statement of Profit or Loss and Other Comprehensive Income on a straight-line basis over the period of the lease.

m. Financial instruments

Financial assets and financial liabilities are recognised when the Council becomes a party to the contractual provisions of a financial instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred.

A financial liability is derecognised when it is extinguished, discharged, cancelled or expires.

Financial assets and financial liabilities are measured initially at fair value plus transactions costs. They are measured subsequently as described below.

Financial assets

For the purpose of subsequent measurement, financial assets of the Council are classified into loans and receivables upon initial recognition.

Receivables are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described below.

All income and expenses relating to loans and receivables are presented within 'finance income' or 'finance costs', except for impairment of receivables which are presented within 'administration and other expenditure'.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition these are measured at amortised cost using the effective interest method, less provision for impairment. Discounting is omitted where the effect of discounting is immaterial. The Council's other receivables fall into this category of financial instruments.

Note-s to the Financial Statements for the year ended 31 December 2013 (cont….)

2.2 Significant accounting policies cont…

m. Financial instruments cont…

Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. Receivables that are not considered to be individually impaired are reviewed for impairment in groups, which are determined by reference to the industry and region of a counterparty and other available features of shared credit risk characteristics. The percentage of the write down is then based on recent historical counterparty default rates for each identified group.

Financial liabilities

The Council's financial liabilities include trade and other payables. Trade payables are classified with current liabilities and are stated at their nominal value unless the effect of discounting is material, in which case trade payables are measured at amortised cost using the effective interest method.

All interest-related charges are included within 'finance costs'.

n. Related parties

Related parties are those persons or bodies of persons having relationships with the Council as defined in International Accounting Standard 24.

o. Capital Management

The Council's capital consists of its net assets, including working capital, represented by its retained funds. The Council's management objectives are to ensure:

- that the Council’s ability to continue as a going concern is still valid; and
- that the Council maintains a positive working capital ratio.

The Council carries out a quarterly review of the working capital ratio (“Financial Situation Indicator”). This ratio was positive at the reporting date. The Council also uses budgets and business plans to set its strategy to optimise its use of available funds and implement its commitments to the locality.

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)
2.2 Significant accounting policies cont…

p. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances. Except for the issues highlighted in note 3 below, the Council is of the opinion that the accounting estimates and judgements made in the preparation of the Financial Statements are not difficult, subjective or complex, to a degree that would warrant their description as critical in terms of the requirements of IAS1 (revised) - 'Presentation of Financial Statements'.

r. Inventories

Inventories are valued at the lower of cost and net realizable value.

3. Judgments in applying accounting policies and key sources of estimation uncertainty

The judgements (apart from those involving estimations) made by the Council in the process of applying the Council's accounting policies, and that can significantly affect the amounts recognised in the financial statements, are discussed below:

i) Amortized cost

In 2013, road works falling within the Public Private Partnership (PPP) scheme were completed. Through this scheme, the Council has entered into a contract whereby the contractor has undertaken road resurfacing works. 40% of the total amount due was settled immediately with the balance to be paid over the next eight years in varying percentages under contractual obligations with the supplier. The balance due to the contractor as at end of 2013 amounts to EUR 183,560. IAS 39 – Financial Instruments: Recognition & Measurement requires that such loans and receivables are accounted for at amortized cost. The Council accounted for this long term liability by arriving at their present value after applying a discount rate of 5 % (equivalent to the cost of debt).

4. Assessment of going concern

The Statement of Financial Position on page 5 and the notes thereto, with special reference to capital commitments, suggest that the going concern assumption used in the preparation of these financial statements is dependent on further sources of funds other than the annual financial allocation by Central Government, on the collection of debts due to the Council and on the continued support of the Council's creditors. Any adverse change in either of these assumptions above would not let the Council able to meet its financial obligations as they fall due without curtailing its future commitments.

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

5. Funds received from central government

	2013 EUR	2012 EUR
In terms of section 55 of the Local Councils Act (Cap 363)	**448,276**	459,061
Government grant income released	**28,314**	8,709
Other Grant Income received	**45,013**	25,812
	521,603	493,582

6. Local enforcement income

	2013 EUR	2012 EUR
Income raised from LES – Southern Joint Committee	**1,000**	4,731
Commission Income for contraventions paid at Council's premises	**5,039**	6,067
	6,039	10,798

7. Investment Income

	2013 EUR	2012 EUR
Bank Interest	**232**	649

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

8. General Income

	2013 EUR	2012 EUR
Reinstatement of roads contributions	**7,663**	14,347
Income from permits	**7,124**	6,917
Refund of honoraria	**-**	3,840
Other Income	**2,729**	1,457
	17,516	26,561

9. Personal Emoluments

	2013 EUR	2012 EUR
Key Management Personnel		
Mayor's Honoraria	**10,055**	9,808
Councilors' Allowance	**8,800**	8,800
Executive Secretary salary allowances	**28,962**	32,156
	47,817	50,764
Operations Personnel		
Employees' salaries	**65,416**	53,245
Social Security Contributions	**7,041**	6,309
	72,457	59,554
	120,274	110,318

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

10. Operations and Maintenance

	2013 EUR	2012 EUR
Repairs and upkeep:		
Road and street pavements (patching works)	**23,615**	39,989
Road markings	**4,303**	3,977
	27,918	43,966
Contractual Services:		
Refuse collection	**70,659**	78,202
Landfill tipping fees	**51,897**	51,894
Bulky refuse collection (including open skips)	**6,260**	6,076
Road and street cleaning (mechanical and manual)	**41,945**	54,181
Cleaning and maintenance of public conveniences/ football ground	**8,154**	8,654
Cleaning and maintenance of parks and gardens	**13,300**	10,891
	192,215	209,898
	220,133	253,864

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

11. Administration and other expenditure

	2013 EUR	2012 EUR
Utilities	**10,464**	10,234
Other repairs and upkeep	**146**	571
Maintenance of Housing Authority blocks	**18,018**	17,758
Rent and other leases	**11,523**	9,719
National and international memberships	**781**	500
Office services	**8,240**	10,737
Transport	**2,396**	4,087
Information services	**6,434**	6,616
Other contractual services	**5,200**	5,051
Professional services	**14,714**	15,797
Community and hospitality	**13,877**	14,394
Depreciation and amortization	**116,140**	55,986
Bank charges	**42**	189
Share of operational expenditure from joint venture	**3,348**	2,491
Cost of books	**62**	84
	211,385	154,214

12a. Property, plant and equipment

Assets	Property	Office furniture and fittings	Urban Improvements	Office Equipment	Computer Equipment	Special Programs	Assets not yet Capitalized	Joint Venture Sports Equipment	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Cost									
As at 01 Jan 2013	156,118	20,392	67,178	28,366	9,194	1,219,813	420,360	68,125	2,006,411
Additions	-	5,161	3,557	410		464,000	5,617	-	478,745
Assets capitalized during 2013	-	-	-	-	-	420,360	(420,360)	-	-
Derecognized & Disposed Assets	-	-	-	-	-	-	-	-	-
As at 31 Dec 2013	156,118	25,553	70,735	28,776	9,194	2,104,173	5,617	68,125	2,485,156
Grants and other reimbursements									
As at 1 Jan 2013	-	-	-	-	-	419,843	-	-	419,843
Additions	-	-	-	-	-	-	-	-	-
As at 31 Dec 2013	-	-	-	-	-	419,843	-	-	419,843
Accumulated Depreciation									
As at 1 Jan 2013	17,148	11,366	43,209	20,239	4,852	391,416	-	59,603	564,698
Charge for the year	1,390	1,022	2,550	1,633	1,139	101,371	-	6,813	115,918
Reclassification									
As at 31 Dec 2013	18,538	12,388	45,759	21,872	5,991	492,787	-	66,416	680,616
Net Book Value									
As at 31 Dec 2013	137,580	13,165	24,976	6,904	3,203	1,191,543	5,617	1,709	1,384,697

12b. Property, plant and equipment

Assets	Property	Office furniture and fittings	New Street Signs	Urban Improve ments	Office Equipm ent	Motor Vehicle s	Comput er Equipm ent	Special Programs	Assets not yet Capitalize d	Joint Venture Sports Equipm ent	Total
	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
Cost											
As at 01 Jan 2012	156,118	20,979	16,865	51,808	27,367	15,257	9,061	1,155,384	38,413	68,125	1,559,377
Additions	-	370	-	15,370	3,014	-	4,651	46,333	400,184	-	469,922
Reclassification	-	-	-	-	-	-	(847)	-		-	(847)
Assets capitalized during 2012	-	-	-	-	-	-	-	18,096	(18,096)	-	-
Derecognized & Disposed Assets	-	(958)	-	-	(2,015)	(15,257)	(3,672)	-	(139)	-	(22,041)
As at 31 Dec 2012	156,118	20,391	16,865	67,178	28,366	-	9,193	1,219,813	420,362	68,125	2,006,411
Grants and other reimbursements											
As at 1 Jan 2012	-	-	-	-	-	-	-	419,842	-	-	419,842
Additions	-	-	-	-	-	-	-	-	-	-	-
As at 31 Dec 2012	-	-	-	-	-	-	-	419,842	-	-	419,842
Accumulated Depreciation											
As at 1 Jan 2012	15,744	11,276	16,865	41,416	20,680	14,186	6,789	349,707	-	52,793	529,456
Charge for the year	1,404	743	-	1,793	1,417	106	1,733	41,709	-	6,811	55,716
Rev Acc Dep on Derecog/disposed Assets	-	(653)	-	-	(1,859)	(14,292)	(3,458)	-	-	-	(20,262)
Reclassification	-	-	-	-	-	-	(212)	-	-	-	(212)
As at 31 Dec 2012	17,148	11,366	16,865	43,209	20,238	-	4,852	391,416	-	59,604	564,698
Net Book Value											
As at 31 Dec 2012	138,970	9,025	-	23,969	8,128	-	4,341	408,555	420,362	8,521	1,021,871

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

12c. Property, plant and equipment

Assets de-recognized during prior year

In 2012, the Council noted that there were assets that no longer qualify as property, plant and equipment, since such assets were disposed in prior years. As a result, the Council has derecognized these assets. The net book value of the derecognized assets in 2012 was EUR 674. The Council's records could not produce all the information relating to the disposal dates of each individual asset, and the Council could not recreate such information, thus rendering the process impracticable to adjust comparative information for one or more prior periods.

In view of the above, the Council affected the change in accounting policy prospectively with effect from 1st January 2012 in accordance with the guidance provided by IAS8 - Accounting Policies, Changes in Accounting Estimate and Errors.

Assets disposed during prior year

The Council disposed of its motor vehicle on the 18th June 2012 with a net book value as at the date of disposal of EUR 966. The proceeds on disposal were EUR 79, giving rise to a loss on disposal of asset of EUR 886.

All derecognized and disposed assets were approved in a Council's meeting.

13. Other intangible assets

	2013 EUR	2012 EUR
Carrying amounts of:		
Computer software	**668**	890
	668	890

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

13. Other Intangible assets cont…

	Computer Software EUR	Total EUR
Cost		
As at 1January 2012	-	-
Reclassification from computer equipment	846	846
Additions	526	526
As at 31 December 2012	1,372	1,372
Accumulated Depreciation		
As at 1January 2012	-	-
Reclassification from computer equipment	212	212
Amortization expense	270	270
As at 31 December 2012	482	482
Net Book Value		
As at 31 Dec 2012	890	890
Cost		
As at 1January 2013	**1,372**	**1,372**
Additions	**-**	**-**
As at 31 December 2013	**1,372**	**1,372**
Accumulated Depreciation		
As at 1January 2013	**482**	**482**
Amortization expense	**222**	**222**
As at 31 December 2013	**704**	**704**
Net Book Value		
As at 31 Dec 2013	**668**	**668**

Amortization expenses have been recognized as administration and other expenditure in the Statement of Profit or Loss and Other Comprehensive Income.

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

14. Inventories

	2013 EUR	2012 EUR
Books and other publications	**2,806**	2,868
	2,806	2,868

15. Receivables

	2013 EUR	2012 EUR
Receivables	**156,923**	133,280
Impairment recognized on receivables	**(92,619)**	(92,619)
Prepayment with trade receivables	**-**	69,200
Prepayments and accrued income	**2,622**	46,707
Share of Prepayments from Joint Venture	**-**	123
	66,926	156,691
Receivables are analyzed as follows:		
Within credit period (0 - 30 days)	**1,810**	5,911
Exceeded credit period but not impaired (31 days +)	**155,113**	127,369
Impaired and provided for	**(92,619)**	(92,619)
	64,304	40,661
Movement in impairment provisions		
Balance at beginning of the year	**92,619**	75,402
Impairment loss recognized on receivables during the year	**-**	17,217
Balance at end of year	**92,619**	92,619

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

15. Receivables cont….

Impairment recognized on receivables relates to receivables balances due from Water Services Corporation amounting to EUR 5,881 (2012 EUR 5,881) and all outstanding monies due from the Law Enforcement Pre-Pooling System amounting to EUR 86,738 (2012 – EUR86,738).

16. Cash at bank and in hand

Cash and cash equivalents included in the Statement of Cash Flows comprise the following amounts in the Statement of Financial Position:

	2013 EUR	2012 EUR
Bank balances:		
Cash at bank	**71,704**	29,797
Share of cash and cash equivalent of Joint Venture	**280**	1,407
Cash in hand	**16**	80
	72,000	31,284

17. Current Liabilities – Bank Current Account

The Council operates two main bank accounts:

(a) current account
(b) savings account

All proceeds from the Council's activities (including government allocation) are deposited in the savings account. The current account is used to issue payments for all expenses. The Council entered into an arrangement with the bank to automatically transfer funds from the savings account to the current account on a need basis, that is when payments are actually presented to the bank. As at the end of year, there were the following un-presented payments pending on the current account.

	2013 EUR	2012 EUR
Bank balances:		
Bank Current Account	**23,335**	8,958

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

18. Payables

	2013 EUR	2012 EUR
Trade creditors	**139,848**	93,512
Accruals	**17,602**	12,974
Other payables	**6,775**	7,171
Share of payables from Joint Venture	**852**	625
Share of accruals and other payables from Joint Venture	**8,355**	6,486
	173,432	120,768

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

19. Deferred Income

Deferred income relates to income received from government grants. According to IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, government grants are presented in the Statement of Financial Position as deferred income. The grants are recognized in the Statement of Profit or Loss and Other Comprehensive Income over the useful life of the asset.

	2013 EUR	2012 EUR
At beginning of the year	**294,113**	87,597
Grants received/receivable during year	**250,255**	215,225
Grant income released during the year	**(28,314)**	(8,709)
At end of the year	**516,054**	294,113
Deferred Income (Grants) – Current Liabilities	**49,303**	17,192
Deferred Income (Grants) – Non Current Liabilities	**466,751**	276,921
Deferred Government Grants		
Deferred between one and two years	**44,594**	72,947
Deferred between two and five years	**109,808**	85,305
	154,402	158,252
Deferred after five years or more:		
Government Grants	**312,349**	118,669

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

20. Borrowings

	2013 EUR	2012 EUR
Non - current		
Third party borrowings	**103,654**	72,741
Borrowings		
Repayable between two and five years	**70,387**	54,556
Repayable in five years or more	**33,267**	18,185
	103,654	72,741

The third party loan relates to an amount payable to a supplier under the Public Private Partnership scheme as per Memo 45/2010. It is repayable over a period of seven years, from 2014 to 2020.

The third party loan relates to an amount payable to a supplier under the Public Private Partnership scheme as per Memo 45/2010. It is repayable over a period of seven years, from 2014 to 2020. The amount is interest-free. The fair value of the loan was arrived at by discounting the value of the loan to its present value using a discount factor of 5% (equivalent to the cost of debt). The present value of the loan is estimated at EUR 156,011. The difference of EUR27,549 between the gross proceeds and the fair value of the loan is the benefit derived from the interest-free loan and is recognized against the asset. Interest expenses will be recognized as from 2014 onwards.

21. Related Party Transactions

The Government of Malta, specifically the Department of Local Government, is considered to be a related party by virtue of control.

During the year under review, the Council carried out transactions with the following related parties:

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

21. Related Party Transactions cont…

Name of Entity	Nature of Relationship
Department for Local Councils	Significant Control
Southern Harbour District Joint Comm.	Joint Control
ARMS Ltd	No Control
Commissioner of Police	No Control
Dept of Information	No Control
Education Department	No Control
Enemalta Corporation	No Control
Housing Authority	No Control
Information and Data Protection Commissioner	No Control
Land Department	No Control
Local Council Association	No Control
Malta Tourism Authority	No Control
Malta Transport Authority	No Control
Malta Transport Authority	No Control
MEPA	No Control
MITTS Ltd	No Control
Office of the Prime Minister	No Control
Regjun Centrali	No Control
Regjun Ghawdex	No Control
Regjun Nofsinhar	No Control
Regjun Tramuntana	No Control
Regjun Xlokk	No Control
The Accountant General	No Control
WasteServ Malta Ltd	No Control
Water Services Corp.	No Control

The following were the significant transactions carried out by the Council with related parties having significant control:

Income	2013 EUR	2012 EUR
Funds received from Central Government	**448,276**	459,061

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

21. Related Party Transactions cont ….

During the year, the Council entered into the following transactions with related parties:

	Amounts transacted with related parties (receivables)		Amounts transacted with related parties (payables)	
	2013 EUR	2012 EUR	2013 EUR	2012 EUR
Joint Control	**1,000**	4,731	**-**	-
No Control	**12,230**	38,325	**63,068**	68,533

Amounts transacted with Related Parties – Receivables relate to trenching works fees and contravention income. Amounts transacted with Related Parties – Payables refer to purchases effected by the Council from related parties.

The following balances were outstanding at the end of the year;

	Amounts owed by related parties		Amounts owed to related parties	
	2013 EUR	2012 EUR	2013 EUR	2012 EUR
Joint Control	**-**	-	**-**	-
No Control	**42,378**	40,635	**27,563**	36,900

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognized in the current or prior year for bad or doubtful debts in respect of the amounts owed by related parties.

Key Management Compensation

Transactions with key management personnel are disclosed in note 10.

22 Fair values of financial assets and financial liabilities

At 31 December 2013 and up to incorporation, the carrying amounts of financial assets and financial liabilities classified with current assets and current liabilities respectively, approximated their fair values due to the short term maturities of these assets and liabilities. The fair values of non-current financial assets and non-current financial liabilities, are not materially different from their carrying amounts.

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

23 Financial risk management

The exposures to risk and the way risks arise, together with the Council's objectives, policies and processes for managing and measuring these risks are disclosed in more detail below. The objectives, policies and processes for managing financial risks and the methods used to measure such risks are subject to continual improvement and development.

Credit risk

Financial assets which potentially subject the Council to concentrations of credit risk consist principally of receivables and cash at bank. Receivables are presented net of an allowance for doubtful debts. An allowance for doubtful debts is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows. The pre-pooling LES debtor balances have been provided for in full. Any income receivable from the LES system is accounting for on a cash basis. Credit risk with respect to receivables is limited due to credit control procedures and the government-owned customers comprising the Council's debtor base. Cash at bank is placed with reliable financial institutions.

The maximum exposure to credit risk for trade receivables at the reporting date, net of impairment losses, by type of customer is as follows:

	2013	**2012**
	EUR	EUR
Trade receivables by class:		
Government Owned entities	**63,121**	40,661

Liquidity risk

Liquidity risk is defined as financial distress, an extraordinary measure which needs to be taken to manage the Council's present commitments arising due to shortage of funds. The objective of liquidity risk management is to maintain sufficient liquidity, and to ensure that it is available within the necessary time frame in order not to create financial distress and curtail current obligations as well as future short term commitments. The Council monitors and manages its risk to a shortage of funds by maintaining sufficient cash and by monitoring the availability of raising funds to meet commitments due. As at year end, the Council had a negative current net asset position (excluding deferred income related to government grants) of Eur55,034 (2012 was a positive net current asset position of EUR 66,697). The Council is aware of the situation, and is currently seeking measure to rectify this position.

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

23. Financial risk management cont….

Interest Rate Risk

The Council operates bank accounts without any financing facilities. As a result, the Council is not exposed to cash flow interest rate risk on bank borrowings.

Foreign Currency Risk

Foreign currency transactions arise when the Council buys or sells goods whose price is denominated in a foreign currency, or incurs or settles liabilities, denominated in a foreign currency. The Council does trade in any foreign currency transactions.

Market risks

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks. The Council currently does not have any third party loans and operates only on the cash surplus it generates from the LES system.

24. Contingent liabilities, Contingent assets and Capital Commitments

Contingent liabilities

The Council has entered into a Local Enforcement Pooling System, losses from which system cannot be quantified at the year-end date and have been excluded from these financial statements.

The Council is involved in a court case along with other Government entities in respect of land used by Government. According to the Council's lawyer, it is not envisaged that the Council will be found guilty in this case.

Contingent assets

The Council has entered into a Local Enforcement Pooling System profits from which system cannot be quantified at the year-end date and have been excluded from these financial statements

The Council is considering taking action against one of its supplier (via Court or through an Arbitration) regarding overcharging of prices for goods and services rendered to the Council, should the negotiations currently being undertaken with the supplier provide to be unsuccessful. The estimated monies to be recouped amount to EUR 15,060.

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

24. Contingent liabilities, Contingent assets and Capital Commitments cont…

Capital Commitments	**2013** EUR	**2012** EUR
(i) Details of capital commitments are as follows:		
Contracted for but not provided in the financial statements	**50,000**	287,398
	50,000	287,398
(ii) Contracted for but not provided in Financial Statements:		
Resurfacing – PPP (Phase 1)	**-**	187,398
Resurfacing related works	**50,000**	100,000
	50,000	287,398

25. Operating Lease arrangements

Operating leases relate to leases of premises from the Government, private individual and a motor vehicle lease. Lease terms range between three and fifteen years.

Payments recognized as an expense

	2013 **EUR**	**2012** **EUR**
Minimum lease payments	**11,710**	9,710
	11,710	9,710

Non-cancellable operating lease commitments

	2013 **EUR**	**2012** **EUR**
Not later than 1 year	**11,710**	14,030
Later than 1 year and not later than 5 years	**20,162**	40,901
Later than 5 years	**2,231**	25,510
	34,103	80,441

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

26. Investment in Joint Venture

The Council has a Joint Venture agreement to develop and manage a football pitch in the locality. The Council owns 50% of the venture. The Joint Venture is being accounted for as a "jointly controlled asset" in accordance with IAS 31 – Interests in Joint Ventures through proportionate consolidation as established by the standard. The Council's initial investment cost was EUR46,587. The proportionate consolidation method of the Joint Venture as at 31 December 2013 is based on unaudited financial statements.

Share of Jointly Controlled Assets and Liabilities recognized in the Statement of Financial Position as at:

	2013 Joint Venture Total Value	**2013** 50% Council's Share	**2012** Joint Venture Total Value	**2012** 50% Council's Share
	EUR	EUR	EUR	EUR
Property, Plant and Equipment	**3,414**	**1,707**	17,040	8,520
Trade Receivables	**-**	**-**	248	124
Cash and Cash Equivalents	**562**	**281**	2,816	1,408
	3,976	**1,988**	20,104	10,052
Trade and Other Payables	**18,411**	**9,206**	14,220	7,110

Notes to the Financial Statements for the year ended 31 December 2013 (cont….)

Share of Jointly Controlled Revenues and Expenditure recognized in the Statement of Comprehensive Income for the year ended:

	2013 Joint Venture Total Value EUR	**2013** 50% Council's Share EUR	**2012** Joint Venture Total Value EUR	**2012** 50% Council's Share EUR
Income	**30**	**15**	-	-
Expenditure	**20,347**	**10,174**	18,601	9,301

There were neither contingent liabilities nor any capital commitments as at year end in respect of the joint venture.